

## **MINUTES**

### **MONTANA HOUSE OF REPRESENTATIVES 57th LEGISLATURE - REGULAR SESSION LOCAL GOVERNMENT FUNDING SELECT**

**Call to Order:** By **CHAIRMAN BOB STORY**, on March 6, 2001 at 5:20 P.M., in Room 137 Capitol.

#### **ROLL CALL**

**Members Present:**

Rep. Bob Story, Chairman (R)  
Rep. Gary Branae (D)  
Rep. Eileen Carney (D)  
Rep. John Esp (R)  
Rep. Jeff Mangan (D)  
Rep. Ken Peterson (R)  
Rep. Karl Waitschies (R)  
Rep. David Wanzenried (D)

**Members Excused:** None.

**Members Absent:** None.

**Staff Present:** Eddy McClure, Legislative Branch  
Greg Petesch, Director of Legal Services for the  
Legislative Council  
Jenni Stockman, Committee Secretary

**Please Note:** These are summary minutes. Testimony and discussion are paraphrased and condensed.

**Committee Business Summary:**

Hearing(s) & Date(s) Posted: HB 124, 3/20/2001  
Executive Action:

**Rep. Story** opened by saying he would like this select committee to be done by March 8<sup>th</sup>. He decided they would discuss the amendments of the Fish, Wildlife and Parks money, vehicle revenue and the new formula growth issue.

**Rep. Mangan** wondered if Alec Hanson's new growth proposal would include Chuck Swysgood's proposal or if they would need to be addressed separately.

**Alec Hanson, League of Cities and Towns** said they had put this proposal with the new proposal. He figured they could work with it, but would discuss it further on Thursday.

**Rep. Wanzenried** wanted to discuss the concepts of the bill. He did not think they had discussed exactly what the bill did beyond the details they talked about. He thought they should begin with a concept they could all agree with and build off that, rather than starting with a global concept and only working on the edges. He would like to look at the core of the bill and the growth issue.

**Greg Petesch** said HB12409.agp **EXHIBIT(1fh51a01)** took the Fish, Wildlife and Parks payment in lieu of tax. This meant it would remain the way things are right now with Fish, Wildlife and Parks making a payment to the local government for the land they own.

**Rep. Esp** moved the amendment and clarified that it would only remove the Fish, Wildlife and Parks and not the DNRC.

**Rep. Mangan** wondered what the background was.

**Judy Paynter, Dept. of Revenue** said they were talking about \$300,000 a year and Fish, Wildlife and Parks had several funds with special qualifications on them. It got too difficult for them to trade out the money. When they would do the CARA bill from Washington, Fish, Wildlife and Parks would receive quite a bit more money to buy state land and the payments would correspond with that. The driving force with this was that if this money was moved so it would come out equally, it became very cumbersome.

**Rep. Story** simplified by saying it was like any time they tried to do anything with Fish, Wildlife and Parks funding they would not let you because it would remove some of their federal funding.

The amendment passed unanimously.

**Gordon Morris, Director of Association of Counties**, wanted DNRC and Taylor grazing fees to be removed from the bill.

**Rep. Wanzenried** moved that they amend to remove the Taylor grazing fees out of the bill.

**Rep. Story** told them they put the Taylor grazing revenue in because it only effected a few counties. The money goes to the state and then the state distributed it from there. It just seemed natural to continue doing it that way, so it was added to

the bill. The Taylor grazing revenue had not been a growing source of revenue, so they thought they would just take care of it in a reimbursement.

**Rep. Wanzenried** asked if the counties that were effected by this want them to collect the money and send it back as an entitlement share, or if that was just conceptually.

**Gordon Morris** said it was conceptually, but they also thought there might be some kind of growth.

The motion to leave Taylor grazing the way it was currently passed with one opposing vote.

**Rep. Wanzenried** moved the 2<sup>nd</sup> amendment to eliminate the DNRC pilt money as an entitlement share.

**Rep. Waitschies** wondered what the counties rational was here.

**Gordon Morris** said this pilt allocation goes to the counties with more then 6% state land and they received a very modest return from the state. They thought that with CARA this also could be an enhanced program more state efficient. They wanted to maintain what they had, rather then coming back later to ask for it again.

**Rep. Wanzenried** wondered if there were any other federal programs that this would cover.

**Rep. Story** said it was a state program. **Rep. Wanzenried** was concerned they would receive more federal money from CARA that would effect this share as well.

**Gordon Morris** said that could be the implications. The only federal money that was not in the bill, but was still a concern, was the Forest Reserve Receipt.

**Rep. Waitschies** wanted the rundown on the route the money took right now.

**Rep. Story** said this money was a statutory appropriation in the general fund. He thought the county took a risk whether they left the money in or took it out, because the legislation could decide they did not want to fund that appropriation. On the other hand, he thought the state took a risk by blending in to the general fund and in 6 years the counties could say they had a lot of state land that they were not getting any payment in lieu of taxes. The state could then create another pilt program. He went on to say it was best to keep it visible so the counties

would see it and know they would get payment in lieu of tax. They could then raise the appropriation or they could keep blending it in to the general fund. The only risk of this would be that it could come back because there was no pilt code.

**Rep. Carney** wanted to know if it would reduce their entitlement share if this was left out.

**Rep. Story** said it would reduce their entitlement share and they would lose the growth factor that had been applied.

**Rep. Waitschies** wondered if the counties had considered the loss of the growth factor.

**Gordon Morris** said they had indeed considered that, but were gambling that there would be a growth potential there, and they wanted to retain that option.

**Rep. Peterson** wanted to know why Rep. Story had voted against the previous amendment.

**Rep. Story** told him he had always thought it would be best to leave that one alone so it would be visible. That way, the state would know they were making a contribution to the local government. There would not be the money floating around, but would be worked in singly. He said it worked well in the bill and that was why it had been put in.

**Judy Paynter** clarified by saying they were talking about \$560,000 a year that went out based on the mil levy. \$303,600 was non-levy revenue in the school fund, and 25% goes back to the state on the 95 mil levy. When it is talked about how much money actually stays with the county, you are looking at \$100,000, instead of the \$560,000. The rest goes into the funding circle. This is why it is so complicated to track it all the way through, and this is why the committee decided to leave it in the bill. She then corrected herself by saying 40% would go to the county road fund, and the 60% that would go to the school fund would go to the county first and then given back to the school.

**Rep. Wanzenried** wondered if the money should be left in because it was such a small amount, or if the money should be taken out because it was such a small amount.

**Judy Paynter** said they do not have \$560,000 that stays at the county government level. They were actually talking about the 40% She thought if a motion was made, it would make more sense to leave the school portion in.

There was a motion to take the state money out of the bill.

The motion failed on a 4-2 vote.

HB 012411, agp. Amendment **EXHIBIT(1fh51a02)** gave twenty-five cents from the vehicle registration back to the highway patrol supplemental retirement account.

**Rep. Esp** moved the amendment and it was passed unanimously.

HB 12414, agp. Amendment **EXHIBIT(1fh51a03)** was an accounting clarification for the fiscal year that would start in July. It made it so the Dept. can not include the financial institution tax reimbursement in the entitlement share for the local government of the school district, unless they include the revenue from that tax in the fiscal year 2000. This would prevent them from getting a double payment for that financial institutional licence tax.

**Rep. Waitschies** moved the amendment, which passed unanimously.

HB 012412, agp. Amendment **EXHIBIT(1fh51a04)** deducts from the entitlement share the amount calculated for state agencies, the district court reimbursement and the state assumption of public assistance. This amendment makes all the funding formulas of both sides of the bill work.

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**Rep. Mangan** thought they should wait on this until they saw what happened with the discussion on the gambling and motor vehicle fees revenue.

**Greg Petesch** explained that the public assistance was contained in this bill, so that would work fine.

**Rep. Story** said gambling and motor vehicle fees were tied into this in a sense, but the reimbursement money may make it a trade off. It may not, but he wanted to go ahead and do this and take care of the problems later.

**Rep. Mangan** moved this amendment.

**Gordon Morris** needed clarification. He said this amendment talked about the deduction of the state payments for the district court reimbursement. He was not sure if that was correct, he thought the district court fees and expenditures would be deducted instead. He was not sure if reimbursement was the right language.

**Judy Paynter** said he was correct and there was a district court reimbursement program and 10% of the light vehicles. People would tend to think of this as that. It was the act of the fees they were taking in and that reimbursement program. She thought it needed some more work.

**Rep. Mangan** withdrew his motion.

HB 012413. app **EXHIBIT (1fh51a05)** includes the two industrial tax increment financing (TIF) districts that are in the state and the list of TIFs that are entitled to an entitlement share payment.

**Rep. Story** said every time they did this, the big one was the ASMI in Butte. When they reduced the business equipment, they would need \$600,000 a year to make their bonds work or they would have to raise their assessment fees. The last legislature had been able to find that money with two bills, but now these groups were asking for the permanent funding.

**Rep. Wanzenried** moved the amendment.

**Rep. Story** wondered where the money was coming from to pay for all this.

**Judy Paynter** explained that the money came because when the gaming revenue was changed, it also changed the accruals on the fiscal years. When fiscal year 2001 would end, the state would pick up this program, in fiscal year 2002 they would gain a quarter of the gaming revenue. They would get this amount in 60 days, while the local government would get it 90 days later. This would mean that it was the same amount of money, there was just a time difference.

**Rep. Mangan** mentioned that they would still be short 1.5 million at some time.

**Judy Paynter** said what happens past 2002 and 2003, because of a specific special session HB, \$600,000 would be paid in 2004 and 2005, but no more after that. Once the current TIFs were done they would not have to make the entitlement payments to them.

**Rep. Wanzenried** wondered what would happen if they did not collect the gaming revenue. **Judy Paynter** told him they would not have the funding.

**Rep. Story** said if the gambling revenue fell out and this stayed in, this \$2 million would come out of everyone else's pocket.

**Judy Paynter** said there were other monies going in.

**Rep. Wanzenried** understood the need to put this in HB 124 to cover the two districts, because if they were left out, the gaming revenue was left out, the gaming revenue would be left out as well, and he wondered what would happen then.

**Rep. Story** said in the beginning, for the ASMI TIF all the property in that TIF is increment because there was nothing there when they built it. When the bonding program was set up, all that property paid for the bonds at a 6% assessment. When the rate was dropped from 6% to 3% the bonds and property were still there, but they just would not have to pay for the bonds like they normally would. They would be given \$6,000 to help pay for the bond so they would not have to raise the assessment against the property. Under this amendment, they would pay half while the state paid the other half.

**Judy Paynter** explained to them the growth rate. **EXHIBIT(1fh51a06)** Part of it comes in terms of money because the growth rate had been changed. There was not enough money to fund the 3.2%. This chart shows how everything would be with a growth rate of 2.3%, and how the money was found to fund this amendment. **Rep. Story** mentioned that this would be a 6.9% gain for the state from the gaming revenue.

**Rep. Carney** asked that the gaming revenue accrual be explained.

**Judy Paynter** said there were accounting rules, and at the end of the year the money was due June 30<sup>th</sup>. For administrative purposes you would actually receive it late, but within 60 days so you would accrue that as revenue in the fiscal year you were currently in. If this was gaming revenue to the state they would approve the June 30<sup>th</sup> payment as belonging in that fiscal year. If the money was received past the 60 days then that money could not be accrued as revenue. The counties would not receive that payment because the state takes about 60 days to get it and then more days are taken before the counties were paid. This would mean that when the money is received, it would be the 1<sup>st</sup> quarter of revenue for the year 2002, versus being recorded as revenue for 2001.

**Rep. Story** wondered how things worked in the out years. **Judy Paynter** explained that a couple of things would happen, but there were TIF savings that would not be going out so there would be some money then.

**Rep. Wanzenried** called for question.

The amendment passed unanimously.

**Rep. Wanzenried** asked about the streamlining that would result in an efficiency total of \$1.9 million and he wondered how that was possible.

**Judy Paynter** explained that when the local government committee looked at all the fees, they thought the majority of the fees come from motor vehicles could be anywhere from \$13.50 to \$23. They decided they would streamline this and everyone's vehicle fee would be \$18. The motorcycles and trailers would range from \$11.26 to \$16.25, so they had streamlined that to \$12. Doing this gave them a \$1.4 million increase, which equaled a 4% change.

HB 012417, agp amendment **EXHIBIT (lfh51a07)** amended the permanent version of 15-10-420 which was the mil levy calculation and floating mil count. It allows the property contained in a TIF district, upon termination, to be treated as a newly taxable property. The existing mil levies could then be applied to the property under the TIF district.

**Rep. Esp** moved the amendment and it passed unanimously.

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HB 012417 agp. Amendment **EXHIBIT (lfh51a08)** clarified the fees on the livestock and hail insurance. It removes the references to the taxpayers from the statutes assessment where the assessment was never actually imposed because it would not be collected on the property tax statement any more.

**Rep. Esp** moved the amendment and it passed 5-1, with Rep. Wanzenried opposing.

**Rep. Wanzenried** wanted to talk about the increases being used to help fund the growth factor. He wondered if there were any other charts with a different rate on them.

**Brad Simshaw, Dept. of Revenue EXHIBIT (lfh51a09)** explained the differences between exhibit 6, with a growth rate of 2.3% and exhibit 9, with a growth rate of 3.2% He said all the numbers would stay the same except for the entitlements to cities and counties, which would flow down to the impact of the state. In the 2<sup>nd</sup> biennium, if they continued with a 3.1% growth rate, the number for the revenue would remain unchanged. The expense number and the differential would be larger. The TIFs were different in each chart because of the difference in the timing.

**Rep. Wanzenried** thought the people should know that the fees were being raised to make things even and help offset the cost of the growth factor.



**Rep. Story** wanted to know what the number would be in 2005 biennium.

**Judy Paynter** said \$1.2 million would have to be added to the \$408.9 million which would make the net be \$2.9 million in the hole.

**Rep. Esp** wanted them to talk about the vehicles in and out, discussing the concept of taking the light vehicle fees out of the bill which would leave that at the county and city level.

**EXHIBIT(1fh51a10)** He wondered why they should send any more money to the state then they had to. He thought it was a better idea to keep it at a county level. This plan would be simple because they would only diversify to themselves and the cities. This would be done on the basis of whether the vehicle was located in the city or the county and was based on flat fee referendum.

**Rep. Wanzenried** said the fees totaled \$75 to \$78 million and he wondered what accounted for the difference.

**Brad Simshaw** said the difference would come from the registration fee, the weed fee, and the junk vehicle fee. It would not include the fees from large trucks or motorcycles. This idea differed from the one in HB 124, because in HB 124 all the fees paid on all vehicles would go to the state. This idea means that the revenue from the light vehicles would remain at the local level.

**Rep. Mangan** asked if they were floating this idea around because it was more simple. He wondered why the committee had not looked at this before.

**Rep. Story** said the committee had looked at leaving the money at the county level, but they had run into some counties who have so much more vehicle money then they have reimbursement money. The counties, especially if they did not have a lot of business equipment, the vehicle then, would have more money in more funds. Either they would have more money at the local level and the state would be absorbing the additional expense, or they would have to send the state more money.

**Rep. Esp** said as they looked at the 2<sup>nd</sup> page, there were 6 counties that may have to send money in, but he thought that would be fixable. He just wanted to know what the committee thought about it before pursuing it any farther.

**Rep. Mangan** said if those counties had to send money back, he thought it was the same as HB 124 was trying to do. At least under HB 124, 1 county sending money back would be like a reverse reimbursement to the state.

**Rep. Story** said the only local level of funding that county collected was motor vehicles, because the rest of the money was already at the state level and distributed from there. He asked for clarification on how to read the county chart.

**Brad Simshaw** took them to pages 28 and 29 in "Simplification in the 21<sup>st</sup> Century", where it shows the status of the counties and cities as in HB 124. The change of revenue flow under HB 124 was a negative \$710,453. Looking at the handout with the new proposal, the fee generated and kept at the local level would be \$62.733 million. He estimated that if the vehicle was in the city limits, all the fees would stay inside the city or town. If the car was outside the city limits it would go to the county government. This would mean the county would not be in the negative as much.

**Rep. Esp** said the other part of the this picture was to consider the flat fee. The cities and towns were worried about the growth in the vehicle revenue based on the growth factor. If they did it this way they would get the number of vehicles in the jurisdiction, but it would be on the flat fee. He did not think there would be much growth under the new law.

**Rep. Story** wondered how much work it would be on the county level to distribute the money based on what would go where.

**Rep. Esp** said if you lived within the city limits it would be easy based on the address.

**Rep. Story** asked if when the money was given to the county, were they required to distribute the money across the mils to the miscellaneous districts or if that was just going to stay in the general fund.

**Brad Simshaw** thought there was an amendment that would direct the commissioners to make those miscellaneous districts whole.

**Rep. Story** thought this proposal would send the money straight to the general fund.

**Brad Simshaw** said the money would remain at the local level.

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**Rep. Peterson** said in the local government committee they had just approved a bill that would allow the creation of a library district. This creates another local government unit and a new entitlement district. He thought this would add to the questions and thought taking a part of the vehicle revenue would fragment things.

**Rep. Esp** said before they moved on, he wanted them to remember that the concept, to leave the vehicles fees at the city and county level and would allow them to have a growth, out of HB 124.

**Rep. Story** they could also just leave it like it is which spreads all the money across all the accounts. He wondered what would happen to the finance and how it would change the charts if they left the vehicle money in.

**Judy Paynter** it would simplify things because it would streamline things. She thought they would need to make everyone share in the entitlement share payments if it was to work.

**Rep. Story** asked where everyone in the committee stood on this, and thought if they wanted to make any changes they would have to start making analysis. He reminded them that everything takes time.

**Rep. Wanzenried** thought that was where they were hung up. There were building block in this bill which included having the reimbursement for the loss made by all the changes in the legislation. He thought they were caught in a tough position because they were supposed to work on this bill, but if they took any thing out, the bill did not work. He thought it would be easier to add things to make the bill work.

**Rep. Story** asked him what he would start with.

**Rep. Wanzenried** said he would start with the basic tenant that they have to have a mechanism in place for the distribution of \$108 million and from there see if doing any of these proposals made sense. He pointed out that \$62 million was kept at the local level so he wondered why they should bring the other \$13 million to the state level as a part of HB 124. He also wondered if there should be a growth factor in that reimbursement. He figured that the local government had already lost more then they would get from reimbursement and would never be held whole. He thought they were stuck because they could not take gaming or motor vehicle fees out because the entitlement share would not work. He hoped they could find a plan that would reimburse local government now and add the other stuff on later.

**Rep. Story** said that was how they were 2 years ago, trying to work out a system that would make the reimbursement more of a long term, ongoing thing.

**Rep. Wanzenried** did not think HB 124 was making things any simpler. The charts say yes, but if they still were not satisfied with the growth rate there would still be arguments.

**Rep. Waitschies** thought they should just go with what was there, and they could fine tune it along the way. If the people did not like it they could vote it down, but at least it was an attempt to streamline things.

**Rep. Peterson** wanted to know where the growth was coming from.

**John Laughton, City Manager of Great Falls**, explained that they tried to do a revenue swab that would make them better off in the long run. They had 3 reimbursement bills that they were currently operating under and the assumption was that the reimbursement bills were at risk. Vehicle revenue was a political target that was growing in the west and the gambling varies, so they tried to come up with a package that would hold them harmless where they were today to give them growth, not to reimburse from previous laws.

**Rep. Mangan** thought, from reading the general part of the bill, that the school district revenue was not a part of the growth factor, but in the handout that Judy Paynter gave, there was an additional revenue for the schools and he wondered where that came from.

**Rep. Story** said that the additional revenue would under the current system phase out for the schools. During the 4 years covered by HB 124, the money was supposed to go back through a formula that is already being used.

**Bob Vogal, Montana School Board Association**, basic concern was that the sunset was going to take place. He was having a hard time trying to reconcile where this part of school funding fit into the overall general fund. The study had not been funded yet, so it probably would not happen. He thought this piece needed to be fixed 1<sup>st</sup>. He wanted the school to be treated the same as local government.

**Greg Petesch** explained Rep. Mangan's amendment, HB012408.agp.  
**EXHIBIT** (lfh51a11)

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The 1<sup>st</sup> part of the amendment was a proration of the amount of the block grant in the event that the appropriation was insufficient for the 2<sup>nd</sup> year of the biennium. This amendment had been worked out by Madalyn Quinlan.

The 2<sup>nd</sup> part requires that the appropriations contained in this bill for schools, for block grants, county wide reimbursements, retirement and transportation included in the present law base for the next session of the legislation so that money appropriation would automatically be included in the base for the next session. The sunset was going to happen, but by including it in the base would eliminate it being treated as a new appropriation.

**Rep. Mangan** moved the amendments.

**Rep. Story** wanted to know how the 1<sup>st</sup> amendment was supposed to work.

**Greg Petesch** said that on an earlier set of amendment they had made the appropriations biennium for the school. This provides that if the biennial appropriation was not enough to fund the full block amount for school districts in the 2<sup>nd</sup> year. OPI would have to prorate that 2<sup>nd</sup> year, so they can not run over. The school district would have to anticipate the propated block grant amount through OPI system for fiscal year 2003.

**Rep. Story** said allowed them to levy to get it back, but they would have to count it so it would not be extra money.

**Chuck Swysgood, Office of Budget and Planning**, asked that the committee hold off til the next day so he would be able to address his concerns with the 2<sup>nd</sup> part of the amendment and where it would go into the base.

**Rep. Waitschies** moved to segregate amendment.

**Rep. Mangan** moved amendment 1, which passed unanimously.

**Rep. Mangan** requested that they wait until the next meeting, for amendment 2 because he thought there was still a sunset problem.

**Sen. Elliot, SD 36** said Trout Creek's concern was the decrease in the money because then each year there would be another decrease.

They discussed the amendments that would be heard the next meeting.

**Rep. Mangan** had one for the school. **Greg Petesch** had one to decide which level the growth factor would stay at. **Rep.**

**Wanzenried** thought he would have amendments concerning the growth factor, whether gaming, motor vehicle, spirits and wine, should be in or out of the bill, and whether to increase the fees to the current level. He wanted to know where they would be if all these amendments failed and the bill failed on the floor.

**Rep. Story** said if this bill went down the local government would want a reimbursement bill to reimburse for the business equipment. He thought they would also work on conceptual amendments.

**Rep. Mangan** decided to ask the government and budget offices to have an amendment prepared to show how the finance would be.

**Rep. Wanzenried** wanted to know what Chuck Swysgood thought of the motor vehicle fees, and did not want them to oppose the bill, when it was all done, because of the increase.

**Chuck Swysgood** said he had not come to a decision. It did concern him that the committee had not acted on anything yet, because then the budget office could not do anything either. His main concerns were the growth rate, school funding, and the fact that the state was at exposure level of the revenue loss. **Rep. Story** asked if that had to do with the possible loss revenue they were bringing in. **Chuck Swysgood** agreed.

**Rep. Wanzenried** wanted to know what system would be used to count and distribute these monies when the quarterly basis started.

**Judy Paynter** said it would be put into the RM counting system, and would not be much additional cost because it takes about 6 hours a month to do.

**ADJOURNMENT**

Adjournment: 7:50 P.M.

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REP. BOB STORY, Chairman

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JENNI STOCKMAN, Secretary

BS/JS

**EXHIBIT** (lfh51aad)